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18 December 1958

CURRENT INTELLIGENCE WEEKLY SUMMARY



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PART I**OF IMMEDIATE INTEREST****BERLIN SITUATION**

There are increasing indications that the Soviet leaders envisage their move to precipitate a crisis over Berlin as the opening phase of a major political offensive in Europe. The ultimate objectives of this offensive probably are to detach West Germany from the Western alliance, to gain Western recognition of the status quo in Eastern Europe, including at least de facto recognition of East German sovereignty, and to remove the threat West Berlin represents to the internal security of East Germany.

By creating a crisis atmosphere over Berlin, the USSR is seeking to generate pressure on the Western governments, particularly from opposition parties in West Germany and Britain, for renewed negotiations with Moscow and major revisions in Western policy on the German question and European security. Recent Soviet public pronouncements and private remarks by Khrushchev reflect the Kremlin's desire to exploit the Berlin issue to attract greater interest in various disengagement schemes which would lead to the demilitarization and neutralization of Germany.

Soviet Statements

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[redacted] Khrushchev indicated his desire for a top-level meeting to discuss not only Berlin but also a German peace treaty, a nonaggression pact, European security, reduction of forces in Germany, and withdrawal of

foreign troops from Europe. He said that of all these measures, the Berlin problem was probably the least important.

In another move at least partly aimed at demonstrating the Soviet leaders' desire for renewed high-level talks with the West, First Deputy Premier Mikoyan has approached the American Embassy in Moscow about arranging a visit to the United States early next year as a "guest" of Soviet Ambassador Menshikov. Mikoyan probably will seek to explore at first hand US views on Berlin and broader German and European problems which Khrushchev has linked to a Berlin settlement.

Moscow may also believe this visit would lend greater credibility to rumors recently circulated by Soviet officials in Europe about secret US-Soviet negotiations for arranging another summit meeting. These rumors, which allege that the United States had agreed to a Soviet suggestion that neither side should inform its German partners, probably are designed to undermine the confidence of the West Germans and other allies in US intentions and encourage those elements in Western Europe which favor independent approaches to Moscow on such questions as German unity and European security.

In an interview, broadcast on 12 December, with the correspondent of a Munich newspaper, Khrushchev contended that acceptance of his Berlin proposal would be a "point of departure"

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for improving the general European situation and would create "favorable preconditions" for dealing with such problems as the creation of a demilitarized zone in Central Europe by withdrawing the forces of the "two opposing military groups." He proposed a mutual reduction and eventual withdrawal of foreign forces in Germany, and even from Europe.

The 11 December TASS statement on Berlin held out the suggestion that the Soviet Union would be interested in a summit conference, but not to discuss German reunification.

The Soviet note of 13 December on the NATO ministerial meeting called for the adoption of three "practical steps," all directed toward disengagement in Europe: the Rapacki plan, reduction of foreign forces in Europe, and a nonaggression pact.

The East Germans and the Poles on 14 December concluded their meetings in Warsaw by issuing a communiqué which urged that full support be given to what was described as the Kremlin's initiative to convene a summit conference. The communiqué went on to suggest that the Berlin free-city solution would help to settle other problems, such as a peace treaty with Germany and German reunification.

In reopening the Berlin issue at this time, Khrushchev may believe that the West is less disposed to run substantial risks of war and therefore is more likely to give in to Soviet pressure.

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The suggestions that broader discussions be held were accompanied by threats from the East. The 13 December Soviet note warned that aggression against the USSR would be answered by retaliatory blows against NATO's "rocket-atomic bases." East German party boss Walter Ulbricht on 15 December declared that there was "full agreement" that any attack by the "West German revanchists" against East Germany would be dealt a "devastating defeat west of the Elbe and Werra"--rivers on the border.

This was the first intimation of a bloc attack on West Germany to counter Western efforts to maintain access to Berlin through force, though the threat appears to restrict such retaliation to actions taken by the Bonn republic. This remark was probably intended to remind the West German people that the Warsaw Pact forces, represented by the Soviet armies in East Germany and East Germany's own military establishment, are only a few miles away.

Polish Fears

The Warsaw meeting was probably intended mainly to present to the Polish people a declaration by the two powers that the Oder-Neisse boundary between East Germany and Poland is permanent and inviolable.

The Poles had been somewhat disturbed by Khrushchev's original declarations in November

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that the Potsdam Agreement could be considered null and void since the Western powers have violated it. The Poles feared that if this agreement became legally ineffective their right to occupy the Oder-Neisse territories, which were originally assigned at Potsdam to Poland for provisional administration, would be undermined.

Actually, the boundary was finalized in an agreement between Poland and East Germany in July 1950, but this accord is not recognized by the Western powers.

The Poles undoubtedly supported German reunification with tongue in cheek since it is generally agreed in Poland that a divided Germany is preferable to a reunified one.

Western Positions

Meanwhile the American, British, French, and West German foreign ministers, meeting on 14 December prior to the formal discussions of Berlin in the NATO Council on 16 December, stressed the West's determination to maintain its rights and position in the divided city, including free access. A unilateral repudiation of Moscow's obligations in Berlin and the substitution of East German authorities for Soviet officials were termed "unacceptable."

Reported differences over whether to link the Berlin question with a call for high-level negotiations on German and European security failed to develop. Adenauer made a strenuous effort prior to the meeting to obtain support for his view that the Soviet ultimatum should be disposed of before considering other negotiations.

On 12 December Adenauer reached agreement with West Berlin Mayor Brandt, prior to his appearance at the NATO meetings, that negotiations under pressure were unacceptable.

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Brandt, however, has again raised in press interviews the possibility of including all of Berlin in a free city. While now opposing this plan as economically "not viable," he said that he would view it in "a different light" if Moscow agreed to the creation of an extraterritorial corridor between Berlin and West Germany. He also would accept a UN-supervised plebiscite in all of Berlin to determine the city's status. Brandt explained to American officials that he is attempting to take a "dynamic" approach in order to place Moscow on the defensive.

In its meeting on 16 December, the NATO Council supported the three Western powers' position on Berlin. The NATO communiqué, however, pointed out

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that the Berlin question could only be solved within the framework of an agreement on all of Germany and emphasized that the Western powers have repeatedly

expressed a willingness to discuss the German question as well as European security and disarmament. 25X1

MIDDLE EAST DEVELOPMENTSIraq

Iraqi Communists appear to be making a determined effort to maintain political tension and thereby neutralize both opposition groups and potential non-Communist sources of support for Qasim. The demonstrations which they led on the occasion of Assistant Secretary Rountree's visit to Baghdad were a continuation of the rioting which they probably inspired in Basra on 8 December, when the army garrison there was besieged and the authorities lost control of the town for several hours.

Prime Minister Qasim indicated this week he still desires friendly relations with the United States, as with "all other countries," but he has not given any sign of moving to improve these relations with the West. Qasim appears to remain suspicious that the West, and particularly the United States is plotting against his regime, and he says that "many Iraqis" believe the Americans inspired the plot which he unveiled last week.

popular rumor in Baghdad has pinned the blame on the UAR.

UAR

The exposure of the plot in Iraq and the arrest of many pro-UAR personalities is said to have "dismayed" Nasir, who has become even more concerned than previously over Communist gains in the area. This week the UAR began what may develop into a full-scale propaganda campaign against Communist activity in the Arab states. UAR-subsidized newspapers in Beirut started attacking the Iraqi Communists early last week, and on 13 December the Cairo press referred for the first time to the subject. On 17 December the Damascus press and radio began to give unprecedented coverage to the danger of "leftist" trends in the Arab nationalist movement and to warn that there were other dangers besides those emanating from the Western "imperialists."

While Nasir's attention appears to be focused on developments in Iraq, the UAR military authorities have remained alert to possible developments on the Arab-Israeli borders. Two general staff meetings have now been held in Cairo to discuss the Israeli border situation, although there is no sign of mobilization or of excessive

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concern over the situation. UAR aircraft were reported by the Israelis last week end to have conducted night reconnaissance operations over Israeli targets, using flash-bombs.

Israel

Tel Aviv mounted a vehement diplomatic campaign prior to the UN Security Council meeting on 15 December, arguing that if the council failed to condemn Syria in clear fashion for the 3 December border incident, Israel would be forced in the future to rely on its own resources. The Israelis sought a postponement of the meeting when they found that the UN truce authorities' report covered a wider range of border incidents, including Israeli as well as UAR violations. The council met as scheduled, however, and deferred further action pending UN Secretary General Hammarskjold's visit to the Near East.

In Israel, government officials have asserted that they again have been under pressure from parliament and public opin-

ion to obtain some satisfaction for the 3 December incident, in which Israeli forces actually fired the first artillery shell, although the Syrians apparently initiated the small-arms fire. There is still no observable sign of any unusual troop call-ups, however, although the office concerned with mobilization plans is said to be working 24 hours a day.

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THE SITUATION IN CUBA

Despite indications that the Cuban armed forces are preparing a concerted drive against the rebels in Oriente Province, army morale continues to deteriorate, and even high officers close to the chief of staff are now reported to believe there is little hope of defeating the rebels.

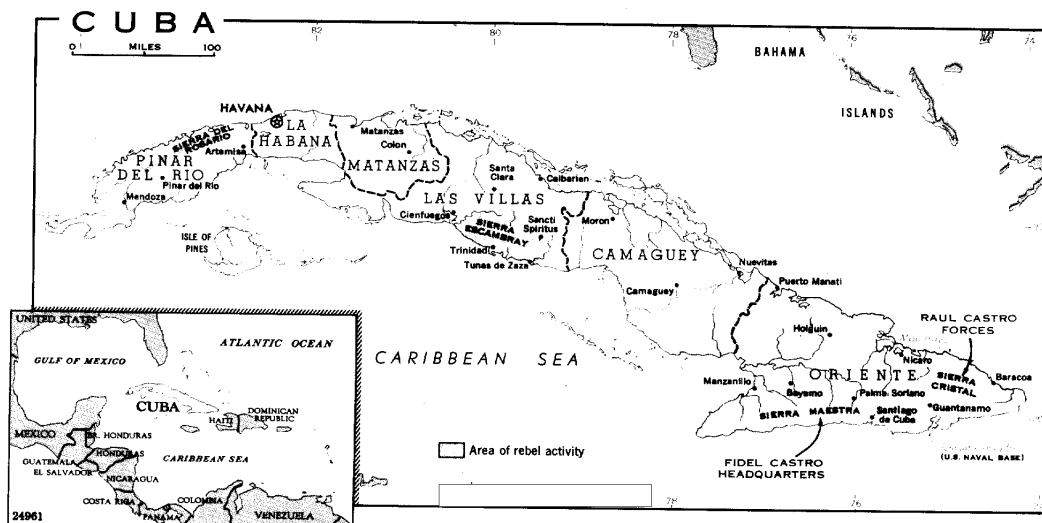
The build-up of troops and military equipment in Santiago

indicates that the Batista regime is preparing a major countermove in Oriente Province. Troops, tanks, armored cars, and other supplies have been concentrating since about 11 December in Santiago, and the army has dropped leaflets urging the civilian populace to evacuate areas where land and air attacks are to be directed against the rebels.

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A new government offensive, however, is unlikely to succeed. The armed forces are hindered by a shortage of supplies and a lack of effective leadership. Many of the troops are young, inadequately trained recruits who lack the will to fight, and some senior as well as junior officers are still suspected of wavering loyalty. Rumors of additional arrests and surveillance of officers in connection with the "military conspiracy" of 27 November continue to be heard.

The rebels, riding a wave of successful campaigns, are a determined and battle-hardened force. They have taken every important town between Santiago and Guantanamo City, and the government seems seriously concerned that they may actually attack Santiago. They appear to be adequately supplied and have recently, for the first time, used launches to interfere with Cuban Navy operations. They also have some airplanes and

from time to time succeed in capturing an army tank. Revolutionary activities are also increasing in Las Villas and Camaguey Provinces and, to a lesser extent, in Pinar del Rio.

The worsening military situation in Oriente, the continued deterioration of Cuba's economy, and the virtual certainty that neither Batista nor his successor, President-elect Andres Rivero Aguero, can effect a political solution have all spurred interest in finding some new approach to end the long crisis. Many business and political elements feel that the establishment of a military or joint military-civilian junta would be the best solution. There is also growing support among various political groups for outside mediation by the Organization of American States or the United Nations, even though rebel leader Castro has flatly rejected such a move.

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SOVIET MOVES AT GENEVA**Nuclear-Test-Cessation Talks**

While attempting to create an appearance of some flexibility this week, the Soviet delegation to the nuclear-test-cessation talks in Geneva remained adamantly opposed to basic Western viewpoints on how to develop a reliable inspection system. Moscow continues to insist on retaining the power to frustrate any act of a control organization which might reduce Soviet freedom of action. The Soviet delegation has balked at any Anglo-American proposals which would have the effect of minimizing the need for further three-power political decisions after initial agreement.

Moscow is particularly opposed to activating an inspection team in the event of a suspected nuclear explosion without the unanimous agreement of the three "founding" powers. The Soviet delegation insists on veto powers for the three nuclear states in the central control organ, on primarily indigenous staffing of control posts in each country, on inspection by ad hoc teams created after suspected violations with concurrence by the government concerned, and on curtailing the duties of the "chief executive officer" or "administrator" of the control organ.

Prior to 15 December, Moscow may have believed it could split the Western delegations on the issue of majority control. London had advised its delegation that pressure in the House of Commons made it desirable that a White Paper on the conference be issued for use in parliamentary debate. The US delegation reported on 7 December that its British counterpart, in its desire to create the impression of substantial

progress before the Christmas recess, had blurred the issue of majority control to some extent by talking of the possibility of unanimity on some issues.

However, the introduction on 15 December of additional US draft articles which provide for a comparatively automatic control mechanism that could not be hamstrung by a suspected violator and which were obviously approved by the British delegation before introduction, has probably dispelled any Soviet hopes of a Western split.

The Soviet delegation promptly rejected the American proposal which would authorize the administrator to proceed with inspection of a suspected violation 24 hours after having notified the commission unless the latter, by a two-thirds vote, were to decide against the investigation. Soviet delegate Tsarapkin alleged that too many of the powers and functions which should belong to the commission were given to the "all-powerful" administrator in the Western draft. He also stated that the commission should decide upon on-the-site inspections in every case on the basis of concrete circumstances. He warned against attempts to establish a control system which would encroach on state security.

The Soviet delegation on 12 December approved article three of the draft treaty. This article identifies principal components of the international control organ, including a chief executive officer to be known as "the administrator." However agreement was reached only after the Western delegates assured Tsarapkin that the administrator would be responsible to the

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commission, thus leaving the issue of voting procedures open.

On 17 December the Soviet delegation approved a British draft proposal calling for a seven-member control commission on which the three nuclear powers would have permanent seats.

Tsarapkin suggested privately that the commission be composed of three from each "side" and one neutral. Ambassador Wadsworth suggests that Soviet interest in composition of the commission may indicate that Moscow is considering a move away from its insistence on a veto.

On 16 December, the Soviet delegate proposed that control provisions of the draft treaty be turned over to a working group while the conference continued discussion of the "political" draft articles. Moscow probably intends to point to Western rejection of the Soviet proposal as further evidence of Western "stalling" to avoid agreement.

An analysis of Soviet propaganda underlines the fact that Moscow will be unwilling to compromise on the majority control issue. After having switched on 8 December to a more optimistic line in view of agreement on the first two draft articles, Soviet propaganda became more pessimistic again on 13 December, attacking Western "evasions" at the talks.

A Pravda editorial on that day criticizes the Western position on a one-year ban, voting in the control organ, and the mobile inspection concept. Pravda alleged that "to insist on these conditions means to bring the matter to the collapse of negotiations." Moscow radio

has also taken a more critical attitude toward the Western position at the talks, although it has not suggested the possibility of break-off.

Surprise-Attack Talks

On 12 December V. V. Kuznetsov, chief Communist delegate to the talks, submitted a lengthy proposal intended to appear to be addressed to the technical aspects of the surprise-attack problem but which is in fact an elaboration of the omnibus plan previously rejected by the West linking surprise-attack measures to specific disarmament steps. Withholding the move until after the date--18 December--for suspending the talks was agreed upon was probably calculated to enable the bloc to avoid serious discussion of the proposal. Moscow probably hopes this document will complete and strengthen the record of the Soviet position in the talks and will counter Western charges that the Communist delegation refused to discuss the technical aspects of the problem.

On 15 December Kuznetsov informed US delegate Foster that Moscow now insists on including in a final communiqué a specific date for reconvening, reversing earlier informal agreement to omit such a date. Moscow probably calculated that Western rejection of this request would strengthen its propaganda position for placing the onus for breakdown on the West. Soviet propaganda media are already alleging that Western insistence on breaking off the talks without provision for reconvening on a particular date may be an attempt "to bring about total collapse of negotiations."
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PART II

NOTES AND COMMENTS

MAO TSE-TUNG TO RELINQUISH GOVERNMENT POST

In giving up his ceremonial post as chairman of the Chinese Communist Government, Mao Tse-tung, who will be 65 next week, apparently wishes to devote his time to his much more significant role as party leader. The recent party central committee plenum underlined Mao's continuing leadership and endorsed his policies. Mao's "communes" campaign was given a "very high evaluation," although the plenum advised caution in establishing the communes in major cities.

Peiping's communiqué on the plenum confirms earlier reports that Mao Tse-tung had requested that he not be nominated next month by the National People's Congress for another four-year term as chairman of the Chinese People's Republic. He is said to have told the plenum that he wanted to concentrate on national policy and to have more time to write on theory.



MAO TSE-TUNG

mid-1957 to work as hard as he once did and has been forced increasingly to delegate responsibility. He was ill in the latter half of 1957 and was reported at that time to have said that he would like to reduce his burden. As late as May 1958, the Chinese press confirmed that he had trouble walking and was easily fatigued.

The post of government chairman carries little constitutional authority and entails tiring ceremonial duties. The right man for it would probably be a comparatively unimportant but esteemed party senior, such as Chu Te, the current vice chairman. There appears only an outside chance that the post will go to a person who is Mao's choice to succeed him as party head.

There is much speculation that Mao's decision was impelled by party and popular opposition to his policies. Mao's prestige did indeed seem

to decline during 1957, when some of his policies clearly went wrong. These included his intervention in economic planning, the "liberal" features of his line on intrabloc relations, and his experiment with "liberalization" at home. Beginning in mid-1957, however, Mao took the lead in correcting his earlier mistakes, and his principal lieutenants helped him do so.

There is much evidence that Mao has been unable since

Mao's most important effort to restore his prestige was the

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campaign in late 1957 for a "giant leap forward" in economic development. This summer, apparently confident that the "leap" would be accomplished, Mao took the biggest gamble of his career by deciding to herd the Chinese people into "communes." The central committee plenum just concluded expressed great satisfaction with the "leap," and promised that it would continue in 1959. It also placed a "very high evaluation" on the commune movement in rural areas, while repeating earlier advice to proceed cautiously in establishing the communes in major cities--where the program has caused some confusion and concern.

Mao apparently intends to retain all his party posts--chairman of the central committee, chairman of the politburo,

and senior member of the politburo standing committee. The latter body, a small superpolitburo, probably originates most of the regime's major policies and supervises both the party and the government machinery. The recent plenum emphasized Mao's leading role at the meetings and the party's expectation of his continuing leadership.

Two years ago Mao prepared for his eventual retirement from active leadership of the party by authorizing the central committee to establish a post of "honorary chairman." Mao may intend to take that title in 1961, the end of his current term and the 40th anniversary of the founding of the party. (Concurred 25X1 in by ORR)

PEIPING REINSTATES PUPPET PARTY LEADERS

Five of Peiping's eight puppet parties have reinstated more than 20 former officials who were attacked as "rightists" last spring and dismissed from their party posts. In reversing its treatment of these "democratic" leaders--many of whom are former Kuomintang officials--Peiping is broadening its effort to break down Chinese Nationalist resistance to negotiations.

Among the rehabilitated puppet party officials are Lung Yun, a former vice chairman of the Chinese Communist National Defense Council and long-time governor of Yunnan Province under the Nationalists; Chang Po-chun, former minister of communications in the Peiping regime; and Lo Lung-chi, former minister of timber industry. Peiping claims that the reinstated "rightists" have made "strides in turning to the left."

In re-electing Lung Yun and three other "rightists" to its central committee, the puppet Kuomintang Revolutionary Committee made a direct appeal to Nationalists on Taiwan to fight against the "common enemy--the United States." Peiping's effort is intended to convince Nationalist officials that their best hope for the future is cooperation with the mainland, which could be rewarded by a job in the Communist regime.

So far the rehabilitation of these officials has been limited to puppet party activity only, but there seems to be some chance that one or two of them will get elected to minor government jobs at the forthcoming National People's Congress in order to underscore Peiping's appeal to Chinese Nationalist officials on Taiwan.

Aside from the loss of face suffered by these "democratic"

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leaders during Peiping's virulent "antirightist" campaign in 1957-58, they have not fared badly. In general, Peiping permitted accused "rightists" to live at home and to continue to work while undergoing reform. Chang Po-chun, for instance, reportedly had his salary reduced but was still of sufficient grade to receive a private automobile and government quarters. Lo Lung-chi is said to be living comfortably in Peiping while studying at the Institute of Socialism along with other "rightists." Another former minister, Chang Nai-chi, is said to be still less sub-

missive than other accused "rightists" and has not been reinstated.

Peiping's treatment of these officials is consistent with Mao Tse-tung's practice within the party of "treating the sickness and curing the patient." Only one serious purge--in 1954--has occurred in the party in the last 20 years; numerous comrades who have opposed Mao at various times continue to be members of the central committee and to perform useful, if powerless, functions for the regime.

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NORTH KOREA PROCLAIMS MAJOR ECONOMIC AND IDEOLOGICAL GOALS

Two major economic and social goals have just been placed before the North Korean people: to complete the "building of socialism" and begin the "transition to Communism" within five years, and to surpass Japan in per capita industrial production within a short but unspecified period. These goals were first announced in a speech Premier Kim Il-sung made before a national conference of party propaganda cadres last November but were not made public until after Kim returned from his trip to Communist China and North Vietnam.

In view of evident uncertainty among bloc countries over the ideological question brought up by their various programs for accelerating socialist development, it is almost certain that Kim discussed his program with the Chinese before making it public.

If Pyongyang declares in 1963 that it has achieved socialism--which the Soviet Union claimed to have basically completed only after 18 years--this would constitute the fastest progress, at least on

paper, made by any satellite country, as Pyongyang counts its progress since the end of the Korean war. In Eastern Europe, Bulgaria and Czechoslovakia consider themselves the farthest ahead in the race toward socialism and the transition to Communism.

In entering the race, Kim Il-sung acknowledged North Korea's initial backwardness, stating that "our ancestors left us nothing but poverty." He emphasized, however, that his country is moving ahead at an extremely rapid pace, and will be able, within the space of Korea's present first five-year-plan, to achieve a level of socialist development comparable to that achieved by other "fraternal countries" in two or three plan periods.

According to Communist theory, a state must meet certain prerequisites before it can claim to have achieved socialism, and North Korea has fulfilled three of these. Agriculture is socialized, private ownership of production forces is liquidated, and artisans are regrouped into cooperatives.

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On the other hand, North Korea does not possess a really strong proletariat and it hardly can boast of a socialist intelligentsia, although Kim has admonished all Koreans to bring their educational level up by self-study to that of a middle-school graduate within the next five years.

Kim has asserted that Communism is not a utopia to be reached in the far-distant future, but that it may be achieved soon. In this he differs somewhat from the majority of Soviet theoreticians and seems to have taken up a now-abandoned Chinese Communist position. In promising the North Koreans abundance in food, clothing, and other consumer goods within the foreseeable future, he runs a risk of generating reaction and

resentment if these benefits do not materialize.

A speed-up in Pyongyang's economic program first became evident in September when the party central committee announced that the first Five-Year Plan (1957-62) would be completed one and one half or even two years ahead of schedule. It appears that Kim has again raised North Korea's economic sights in this last speech, but even if Pyongyang should meet all of the proposed targets, its economy would still fall far short of providing the abundance implied by Kim. Only by carefully choosing his industrial products could Kim concoct a case for the propaganda claim that North Korea's per capita production had surpassed Japan's.

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KISHI FACING OUTBREAK OF CONSERVATIVE FACTIONALISM

Renewed factionalism in Japan's governing Liberal-Democratic party is likely to force Prime Minister Kishi to give the "antimainstream" intra-party opposition groups a greater voice in party and governmental affairs in order to head off a major conflict. In so doing, however, Kishi may further dilute his power and leadership, already damaged by his mishandling of the police powers bill and his subsequent acquiescence in Socialist terms for ending the recent parliamentary crisis. This could hasten his downfall.

Responsible "antimainstream" leaders such as Hayato Ikeda and Takeo Miki believe the time is not yet ripe to challenge Kishi's re-election as party president early in 1959, but do see an opportunity to force the ouster of his top party lieutenants, especially policy board chairman Ichiro Kono. Some opposition elements, however, are demanding Kishi's resignation as party president and prime minister. One of Japan's three major newspapers, the Yomiuri Shimbun, also has called for the Kishi government's resignation. Party unity is further threatened by the recommendation

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of the party's disciplinary committee that two members be expelled because of their particularly violent attacks on the prime minister.

Evidence of Kishi's weakened leadership is found in his acceptance of a Socialist candidate for vice speaker of the Diet, in his assertion to "anti-mainstream" leaders on 14 December that he shortly would carry out a reshuffle of party executives, and in the continued party dispute over whether to include the Ryukyu and Bonin Islands in the defense area of the revised security treaty with the United States. Absence of

conservative unity also promises to lead to difficulties for the government's legislative program in the present Diet session.

Kishi's re-election as party president--whether in January as sought by his supporters or in March as described by the "antimainstream" group--seems probable, but challenges to his position on specific policy matters, such as close cooperation with the United States and a "firm" policy against Peiping, appear likely to increase. The task of placating the opposing party groups, and heading off a possible split in the party, will be a difficult one.

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CEYLON'S DETERIORATING POLITICAL SITUATION

The political situation in Ceylon continues to deteriorate despite the fact that the explosive Tamil minority problem and touchy labor situation remain under control for the present. The disclosure in Parliament on 20 November of a plot by conservative elements to assassinate virtually all top Ceylonese political leaders except Prime Minister Bandaranaike and establish a dictatorial regime has indirectly implicated the prime minister himself and provoked new attacks on his government from both the right and the left. Press publicity already given the coup plan seems certain to intensify popular discontent and may result in further plotting against the government by rival political elements.

Bandaranaike's coalition government, although seriously weakened during the past year by continuing crises, survived a no-confidence motion on 21 November by 52 votes to 20. Any prestige the government might have gained as a result

of this easy victory, however, presumably has been counteracted by the subsequent publicity and heated discussions regarding the planned assassinations. The prime minister's personal position will become even more vulnerable if wider publicity is given to rumors implicating him in the coup. Bandaranaike's procrastination in appointing a commission to investigate the coup charges also has caused suspicion; if charges against him are documented during an inquiry, he is likely to be under strong pressure to resign.

The issue has further weakened Bandaranaike's government by renewing open conflict within the cabinet between the moderate elements--two of whom allegedly supported the recent plot--and far-leftist Minister of Agriculture Philip Gunawardena, who reportedly was to be assassinated. More open charges and countercharges by the two groups could deepen the antagonism between their respective followers in

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the government parliamentary group and increase the possibility of defections from that group.

The present tension is symptomatic of Ceylon's chronically unstable political and economic conditions. The conservative plot, together with leftist endeavors to prepare

urban labor for a general strike, illustrates a growing preoccupation with the idea of direct action as a means of stabilizing the situation. Attempts by either leftist or rightist elements to exploit the present uncertainty and declining public morale probably will stimulate rival plots by either side to seize control. 25X1

AFGHAN FOREIGN POLICY REASSESSMENT

Afghan Prime Minister Daud's recent expressions of strong concern over American bilateral pact negotiations with Pakistan and Iran and over internal developments in Pakistan indicate that Kabul feels increasingly isolated and may be reassessing its foreign policy.

Since the Iraqi coup of 14 July, the Afghan royal family has been nervous about its ability to remain in power. This anxiety has been heightened by the advent of the new military regime in Pakistan, which the Afghans apparently regard as tougher to deal with than its predecessors and inflexibly opposed to local autonomy for the "Pushtoons" in Pakistan's Northwest Frontier region. The Afghan Government is discouraged over prospects of progress in the "Pushtoonistan" dispute, which it feels vitally affects its internal prestige and power.

Foreign Minister Naim has also alleged that Kabul has evidence that certain groups, presumably Pakistanis, are plotting to overthrow the Afghan Government in order to settle the Pushtoonistan issue. Kabul may suspect, therefore, that Pakistan is behind both the recent murder of an Afghan district official near the Khyber Pass and the Afghan tribal dis-

turbances near the Pakistani border reported in mid-December.

At the same time, Daud appears concerned that American



bilateral agreements under negotiation with Pakistan and Iran will lead to further strengthening of these two countries militarily--at the expense of Afghan security.

He may interpret recent delays in several economic projects

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sponsored by the United States as an indication of cooling interest in Afghanistan. The failure of the United States to provide wheat on a grant basis, as in the past two years, may contribute to this impression.

If the Daud regime's anxieties continue, it may consider it has no alternative but to seek closer relations with the USSR to maintain the royal fami-

ly's position internally. The Afghans, however, may be more hesitant than in the past to take this course in view of Soviet interference in the internal affairs of Hungary, Yugoslavia, and Finland. Kabul may therefore first attempt to secure more rapid implementation of American economic assistance programs and Western pressure on Pakistan to adopt a conciliatory posture toward Afghanistan.

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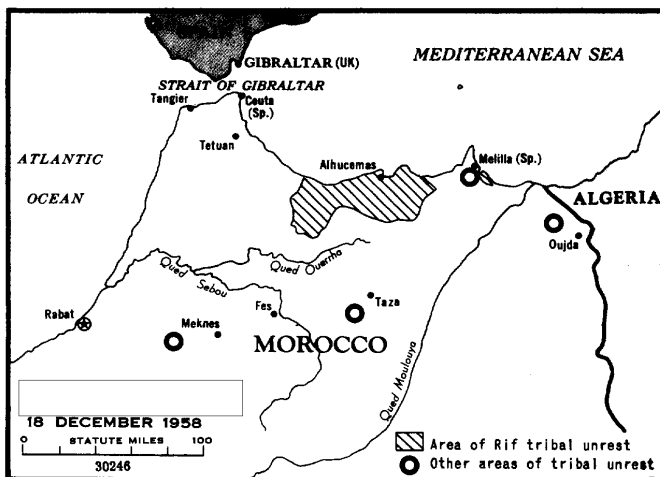
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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****18 December 1958****INSTABILITY IN MOROCCO**

The reluctance of King Mo-hamed V to assert strong leadership in the present governmental crisis in Morocco is likely to diminish his prestige throughout the country. His desire to remain aloof from party politics and his simultaneous encouragement of forces to counterbalance the dominant Istiqlal party have also indirectly strengthened the Istiqlal's left wing and contributed to growing anti-Istiqlal dissidence among the Berber tribes.

Since the resignation of the Balafrej cabinet last month, a succession of potential premiers has sought to create a government with more representation of the Istiqlal's left wing. They failed when party moderates, notably Balafrej, refused to cooperate. The latest aspirant, Istiqlal left-wing extremist Abdullah Ibrahim, a former minister who was not in the outgoing cabinet, has been instructed to form a broad-based cabinet of limited duration, with a primary mission of organizing early municipal and communal elections.

instability and the growth of tribal dissidence. This dissidence now seems concentrated in the poverty-stricken Rif region of northern Morocco among the tribesmen of exiled warrior Abd-el-Krim, who revolted against Spanish rule in the 1920s. Moroccan security forces also are trying to prevent other restless tribes from contacting the Rif-fians.



Prolongation of the governmental crisis which has existed virtually since early summer will intensify internal

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AFRO-ASIAN ECONOMIC CONFERENCE

The Soviet Union failed in its efforts to turn the Afro-Asian Economic Conference in Cairo, which ended on 11 December, into a UAR-Soviet "anti-imperialist" forum. Delegations from most countries were composed largely of representatives of business interests who objected strongly to Communists efforts to introduce political issues.

Generally, the conference accomplished little other than the adoption of resolutions defining area economic problems. M. V. Nesterov, head of the Soviet delegation, aroused the opposition of delegates from neutralist countries when he attempted to make a speech embodying the "united imperialist conspiracy" line. When cut off in the middle of a sentence by the Indonesian committee chairman, Soviet delegate Nesterov demanded that the chair's ruling be put to a vote. He was silenced by a 12 to 4 vote.

The hostility of some neutralist delegations toward the Communists apparently embarrassed Cairo. The UAR minister of economy failed in an attempt to quiet the Indonesian delegation by appealing to Indonesian Government officials. A number of representatives, including those from India, Pakistan, Indonesia, Ceylon, and Malaya, strongly

objected to the presence of the Russians and Chinese Communists. UAR arguments that invitations were sent out on a geographical basis failed to still objections of delegates who argued that on this basis Israel, Taiwan, South Korea, and others should have been invited.

The conference agreed to set up study groups and to establish a permanent Afro-Asian organization to facilitate cooperation between federations of chambers of commerce. This organization will initially have its headquarters in Cairo and consist of a council which will meet every two or three years.

Although the European Common Market was recognized as a real challenge for the economies of Asian-African countries, the conference failed to make the Common Market scheme out to be "evil," as Cairo has been insisting. Delegates, however, called for a study of the Common Market's implications for Afro-Asian states. Aside from Chinese Communist membership on the committee which will draft a charter for the permanent organization, the Soviet bloc failed to capture any important committee positions. The Indonesians said that if the USSR became a member of the permanent organization, they would not.

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ALL-AFRICAN PEOPLES' CONFERENCE

The nongovernmental All-African Peoples' Conference held in Accra between 8 and 13 December seems certain to be regarded by Africans as a major milestone in their independence movement. Some 300 official delegates represented about 60

nationalist groups in most independent nations and dependent territories of the continent.

The conference produced the anticipated diatribes against the colonial powers, white settlers, and "tribalism,"

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as well as demands for the immediate independence of all dependent areas. However, the vigorous efforts of UAR-led nationalist and pro-Communist extremists to control the meeting appear to have failed. Furthermore, their overzealous lobbying for highly inflammatory resolutions apparently alienated Ghana's Prime Minister Nkrumah and other responsible leaders.

These extremists, supported by Sino-Soviet bloc representatives, did succeed in obtaining an oblique endorsement of the use of violence in "subjected and exploited" territories where "democratic means" are not available. However, at the insistence of Nkrumah and other moderates who generally prevailed, the principal emphasis throughout the conference was on fostering a "nonviolent revolution" by means of such essentially peaceful tactics as civil disobedience and economic boycotts. These may soon be put to the test in Britain's Kenya colony,

where African nationalists are led by the conference's able and dynamic young chairman, Tom Mboya.

Despite the undoubted hostility of the UAR to the creation of any rival to its Cairo-based Afro-Asian Solidarity Secretariat, the delegates provided for the establishment in Accra of their own permanent organization. Thus they provided a center of gravity for the African movement separate from, though still tactically allied with, its Asian counterpart.

However, while providing new impetus to the pan-African ideal of a United States of Africa, the meeting also pointed up many underlying differences certain to impede the attainment of even limited regional federation. In this connection, cleavage between representatives from French and those from British territories was particularly marked.

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BELGIUM SEEKING NEW POLICY FOR THE CONGO

Belgian Prime Minister Eyskens' new Social Christian - Liberal coalition is evidently making some progress toward developing a policy for the Belgian Congo that will increase the territory's autonomy and leave it less subject to government changes in Brussels.

The Belgians have become increasingly concerned over the rapidly developing political consciousness of the Congolese and the influence on them of independence movements throughout Africa. When Eyskens took

office as head of a minority Social Christian government last June, he set as one of his goals the development of a "national" policy for Belgium's African colony of half a century that would in some degree satisfy Congolese aspirations and at the same time take the territory out of the area of Belgian domestic politics. Belgium's hopes to proceed rapidly with the \$3 billion Inga hydroelectric project have lent a special urgency to these objectives.

Eyskens first appointed the nonpartisan Leon Petillon, former

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governor of the Congo, as minister of colonies, and then sent to the Congo an able and authoritative study group, including colonial experts from the three major parties and senior members of the colonial service. This working group has concluded that the Congo's internal political development should aim toward complete autonomy within the framework of a new association with Belgium. In the meantime, it is recommended that major emphasis be placed on rural economic development, decentralization of control from Brussels to the Congo and from Leopoldville to the provinces, and on judicial reform to bring about the total elimination of racial and social discrimination. An extensive education and medical program to be subsidized by Brussels was also recommended.

Translation of these recommendations into an agreed government program--scheduled to be presented to parliament on 19 January--may prove difficult. There will be pressure to "go slow" from the Liberals, who are close to the large financial interests that favor the status quo in the Congo. The Socialists, though normally inclined to favor such a reform program, are now firmly in the parliamentary opposition. In any event the maximum which Brussels will be able to offer will probably defer Belgium's colonial problem for only a limited time, and may, in fact, spur nationalism since the Africans have made it clear that they will ultimately be satisfied with nothing short of complete independence.

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HONDURAN CRISIS NEARING CLIMAX

Tension is mounting in Honduras in the wake of the armed forces' ultimatum of 8 December to President Ramon Villeda Morales demanding that he immediately reconstitute his government to include representatives of the opposition parties. Members of the President's Liberal party are angry over the intervention by the military in civil government and some are probably disposed to resist it by force. Even a relatively minor incident could touch off serious violence between armed Liberal partisans and the military elements, who expect clashes at any time.

The military ultimatum was dictated chiefly by attempts during the past year by certain Liberals in the government to undermine the autonomous status of the armed forces. The mili-

tary had relinquished direct control of the government a year ago, only after securing this autonomous status by the enactment of special constitutional provisions. President Villeda and his Liberal government inaugurated at that time have thus had virtually no control over the military. Frictions steadily mounted between military leaders, acting as the "watchdogs" of constitutional government, and officials of the civil government. Many Liberals have come to regard as a necessity the subjection of the military to civil rule.

By mid-November, minor clashes between civilian and military elements were reported in several parts of the country. Army officers claim they have lost 17 men in these encounters.

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In addition to the demand for a coalition government, they called for the immediate cessation of partisan attacks on the military.

Villeda appears inclined to accept the demands, though he may attempt to temporize. He has announced that he will

reorganize his cabinet on 21 December; however, members of the opposition named to it will probably not be their parties' choices and may not be acceptable to the military. Several local officials have been replaced by others presumably less offensive to the military. A continuing danger of violence, however, comes from the more hotheaded Liberals, whom the President may not be able to control, and from elements in the military

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25X1**FRENCH ECONOMIC POLICY CONFLICTS**

The clashing views on economic questions held by various De Gaulle supporters may result in open conflict when the government's economic program is presented to the special meeting of Parliament in January. The 1959 budget probably will reflect the anti-inflationary views of Finance Minister Pinay, while leaders of the New Republic Union (UNR), which is by far the largest group in the new assembly, have seized on an aggressive, expansionist economic policy as the keystone of their party's program.

Since De Gaulle took office on 1 June, he has given priority to noneconomic problems, permitting Pinay to follow a cautious stabilization program of his own. Pinay's recommendations for the new budget call for holding the deficit to the 1958 level of approximately \$1.5 billion. To accomplish this while providing for increased military and civilian expenditures, he proposes to reduce subsidies and permit the prices of food, transportation, and fuels to rise, to make the social security system self-sufficient,

to increase business taxes, and to remove some categories of investment from the public budget.

Such proposals, even if backed by De Gaulle, face almost certain parliamentary opposition. Some labor and business leaders already fear that Pinay's conservative policy may be pushing the reduced level of activity in some sectors of the economy--such as textiles--into a full-scale recession. Moreover, Pinay's own Independent party, the second largest group to emerge from the November elections, is supported primarily by business interests adamantly opposed to new taxation. The UNR's program stresses greatly increased government investments of a pump-priming nature, while the Socialists and other left-of-center deputies automatically oppose efforts to reduce social security benefits or subsidies.

With regard to labor problems, which are again becoming serious, De Gaulle is reported determined to put into effect the "association of labor and capital" program in which he has long been interested. A

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pilot project for this program may be found in the 15 December agreement signed at the nationalized Renault automobile works raising wage rates and providing for joint labor-management consultation and reduction of working hours. This "association"

technique is a controversial one, however, which can be described by labor unions as "reminiscent of Vichy" and opposed by businessmen as a compulsory profit-sharing scheme.

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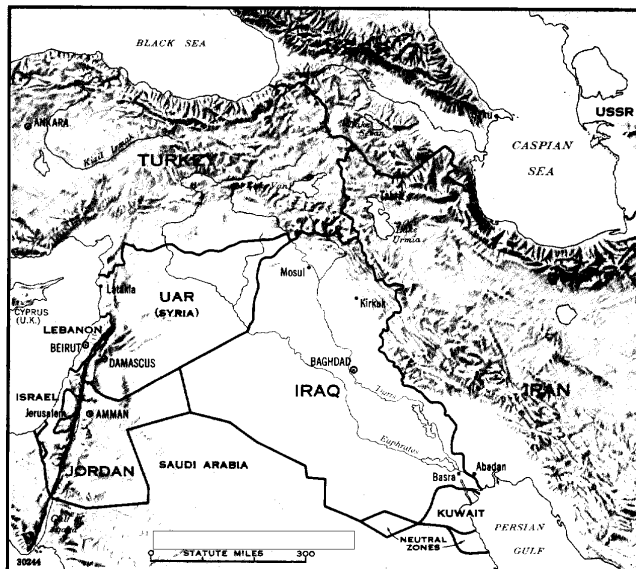
PART III**PATTERNS AND PERSPECTIVES****SOVIET POLICY TOWARD THE NEW IRAQI REGIME**

Since the Iraqi coup in July, the USSR has worked intensively to encourage the emergence in Iraq of a pro-Soviet "client" regime. This would permit the USSR to attack the remaining Western interests and possessions in the Middle East, particularly oil in Kuwait, the Persian Gulf, and Iraq. Immediately hailing the overthrow of the Nuri Said regime as "knocking the 'keystone' out of the Baghdad Pact," Soviet leaders have indicated they value the further "encircling" of Turkey and the exposure of Iran to a new source of anti-Western pressure. Moscow probably expects that the revolutionary regime in Iraq will also increase pressure on neighboring Jordan, Saudi Arabia, and Kuwait to moderate their pro-Western policies.

Post-Coup Support

Following its speedy recognition of the revolutionary government on 16 July, Moscow undertook a series of diplomatic and propaganda initiatives designed to ingratiate itself with the new regime and to forestall possible military counteraction by Iraq's pro-Western neighbors or by Western forces. Starting with Nasir's hasty visit to the Soviet capital, Moscow cooperated closely with Cairo in efforts to contain the Anglo-American military intervention to Lebanon and Jordan.

TASS announced on 17 July that Soviet air and ground forces in the southern USSR would hold maneuvers--subsequently conducted in the border areas adjacent to Turkey, Iran, and Afghanistan. Soviet officials in a number of countries claimed that although Moscow had not reacted with military force in Lebanon and Jordan, any armed attack against the new Iraqi Government would



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lead to direct Soviet military counteraction--most likely through Iran. Khrushchev made a series of proposals starting on 19 July for a heads-of-government meeting to end the "military conflict" in the Middle East.

Moscow followed up its early recognition by assigning as ambassador to Iraq, Grigory T. Zaytsev, an Arab-speaking scholar and economist who had served as Soviet

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ambassador to Iraq from 1944 to 1948 and, more recently, headed the Near East Department of the Soviet Foreign Ministry. Zaytsev arrived in Baghdad on 4 August with an eight-man diplomatic staff, including several Middle East specialists, and immediately launched a campaign to establish close Soviet-Iraqi political, economic, and cultural ties.

Views on UAR-Iraqi "Unity"

To the surprise of many of Nasir's supporters, the Soviet-controlled Iraqi Communist party, instead of backing Cairo's efforts to stampede Iraq into a merger with the UAR, led the Iraqi public in opposition by urging "federation" instead of Nasir's immediate "unity." Moscow, dissatisfied with Nasir's frustration of its Syrian "experiment" and the suppression of Syrian Communist party activities following formation of the UAR in February 1958, wished to avoid a repetition of this development in Iraq. In September Khalid Bakdash, the top Middle Eastern Communist leader, made the Communist position clear with a Moscow-approved attack on Communists who are willing to compromise party aims for the sake of Arab unity, stating: "We are partisans of Arab unity, but we... will never dissolve our party."

Soviet leaders apparently saw in Qasim's tolerance of Communist party activities an opportunity not only to develop real influence in the Iraqi Government, but through Baghdad to pave the way for the spread of Soviet and Communist influence throughout the Arab world, and to develop a rival center of radical Arab nationalism which could be used to force Nasir into closer collaboration. Moscow may consider that Cairo will now have to

compete with Baghdad for Arab loyalties on issues of paramount Arab interest--including "anti-imperialism," economic development, and the fate of Israel--thus posing the threat to Nasir of Communist-inspired attacks on these issues and restricting his freedom to compromise with the West.

Moscow probably believes that Cairo's long-standing anti-Western campaign and growing dependence on the bloc for economic and military support severely limit Nasir's ability to take an open stand against the Communists over the setback of his ambition to merge Iraq with the UAR, or to seek even a temporary detente with the West. Khrushchev's announcement on 23 October of a loan of \$100,000,000 to the UAR to begin construction of the Aswan High Dam project may have been intended at least in part to conciliate Nasir for his loss of prestige in Iraq, as well as to impede any further UAR economic rapprochement with the West.

Arms Aid to Iraq

Moscow's quick offer of arms, military equipment, and training assistance to the new Iraqi Government provided a major lever to influence Iraqi policy. Discussions over arms for Iraq were apparently under way as early as late July among Soviet, Iraqi, and UAR officials. During August Iraq received a steady flow of military assistance from the UAR, including bloc arms previously delivered to Syria and moved overland to Iraq.

In October an Iraqi military mission left for Moscow to negotiate an arms agreement with the USSR. Despite Nasir's efforts to channel Soviet arms assistance to

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Iraq through UAR hands, both Moscow and Baghdad apparently preferred direct Soviet-Iraqi negotiation.

Under the agreement concluded in Moscow in mid-October, Iraq is to acquire a wide range of arms and military equipment, including jet aircraft. Precise details of the agreement are not known; the total, however, is believed to approximate \$170,000,000 and to include liberal payment terms similar to those in bloc agreements with the UAR. Baghdad reportedly intends to equip one armored division and one or two infantry divisions with bloc materiel, and to expand greatly the Iraqi air force.

Economic Ties

Encouraged by statements of Iraqi officials that the revolutionary government was willing to develop economic relations with all countries, Moscow moved rapidly to re-establish commercial ties which were interrupted when Iraq broke off diplomatic relations in January 1955, and to reduce Iraq's dependence on the West by offers of specialists and technical training assistance.

The Soviet-Iraqi general trade and payments agreement signed in Baghdad on 11 October provides for an increased exchange of goods and authorizes Moscow to establish trade offices in Baghdad and Basra. At the signing, Iraqi Minister of Economy Kubba, an extreme leftist, hailed the agreement as the first stage in the conclusion of others, "more detailed, wider in scope, and

more far-reaching." Despite the fanfare, the only specific result to date of the Soviet agreement has been Moscow's purchase of 2,000 tons of Iraqi dates--an amount in line with pre-1955 purchases.

Iraq and East Germany signed a similar agreement on 26 October. Hungarian, Czech, and Polish trade missions have also visited Baghdad in attempts to stimulate trade, and Communist China's new diplomatic mission has offered to exchange manufactured goods for Iraqi oil.

Oil Policy

Moscow views Western dependence on and exploitation of Middle East oil as extremely vulnerable points in the West's relations with the Arab world. While the revolutionary regime so far has taken little action against the Western oil interests in Iraq and Qasim apparently realizes that stoppage of Iraqi oil supplies might invite strong Western counteraction as well as cut off a vital source of revenue, Soviet leaders probably hope to influence Baghdad's petroleum policy in order to threaten Western European oil supplies.

The USSR is directing a multipronged propaganda campaign to heighten Arab sensitivity to Western "exploitation," by encouraging Arab encroachment on Western Middle East oil interests. Bloc propagandists are urging the Arab states to seek a greater share of oil revenues and management at all stages from exploration to sale to the ultimate consumer, and are pointing to oil profits and nationalization of foreign investments to provide capital for Middle Eastern development projects. D. N. Pritt, a British lawyer active in pro-Communist causes, arrived in Baghdad in late September as a guest of the Iraqi Government, presumably to advise on oil policy.

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Moscow may plan to accept petroleum in partial exchange for arms sold to Iraq. Shipment of Iraqi oil by sea to the Soviet Far East would help reduce dependence on petroleum moved across the Trans-Siberian Railroad from the western USSR. At the present time the USSR does not have the facilities to transport or market a major share of Iraq's oil.

Communist Influence

Soviet leaders look on Iraqi Communists essentially as a means of influencing the revolutionary regime to align itself with the Soviet goals in the area. The Iraqi Communist party, strengthened by the release from jail and return from exile of many of its most able members, has taken advantage of the Qasim regime's tolerance to wage an open campaign to organize the "street" and to stir up anti-Western sentiment. While the extent to which Iraqi Communists influence Qasim personally or the government generally is not clear, Qasim has used or at least permitted Communist-led street demonstrations on his behalf against Baathist and other pro-Nasir elements. The Communists apparently have penetrated the government and have been especially successful in gaining control over Iraqi propaganda media.

Qasim's discovery in early December of a UAR-supported plot

against his leadership has probably resulted in a further expansion of Communist influence in his government, and Qasim has apparently become even more dependent than before on the support of Communist or pro-Soviet "independents" not tainted by association with the UAR or the West. As an aftermath of the plot, some staunch anti-Communists in the security forces apparently have been replaced. The fluid domestic scene plus Qasim's need for continued bloc diplomatic, economic, and arms support makes an early crack-down on Iraqi Communists unlikely.

Moscow has also renewed its overtures to the Kurds, apparently as a means of pressuring Qasim as well as for exerting pressure on Iran, Turkey, and the Syrian region of the UAR, which have large Kurdish minorities. Although in the immediate postwar period both the USSR and the Iraqi Communist party agitated for an independent Kurdistan, since the July coup they have instead emphasized the themes of Kurdish-Arab friendship and Kurdish autonomy within the Iraqi state. The return to Iraq on 5 October of Mulla Mustafa al-Barzani, Iraq's leading Kurdish figure, from 11 years of exile in the bloc has been followed by a general upsurge of Kurdish political activity and bolder demands for autonomy. (Concurred in by ORR)

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ECONOMIC PROBLEMS FACING NEW PAKISTANI REGIME

The new military regime in Pakistan inherited an economy that has made little progress during the past ten years. The failure of agricultural output to keep up with population growth has largely offset the increase in industrial production, and the country remains

overly dependent on jute and cotton exports for foreign exchange earnings. This situation results more from poor management than from Pakistan's poor resources, however, and a considerable potential for improvement exists if the new government adopts and carries

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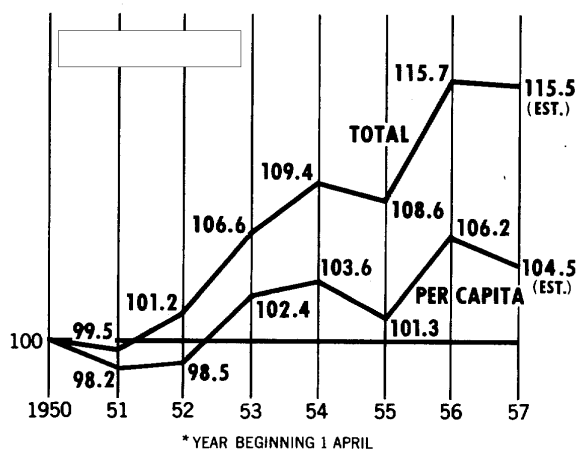
out a well-conceived economic development program.

Pakistan in the past has been able to place little emphasis on economic development, mainly because of the rapid changes in its governments, whose leaders have been interested chiefly in improving their personal political and financial positions. Although Pakistan is in the fourth year of its First Five-Year Plan (1955-60), the plan itself was not finally approved by the government until 1958. No more than 50 percent of the \$1.575 billion plan is likely to be fulfilled, chiefly because of a lack of effort to implement it.

imports. Food-grain yields per acre, which are among the lowest in the world, have been declining in recent years, in contrast to the yields of commercial crops. Waterlogging

PAKISTAN: GROSS NATIONAL PRODUCT

(1950=100)*



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Agriculture

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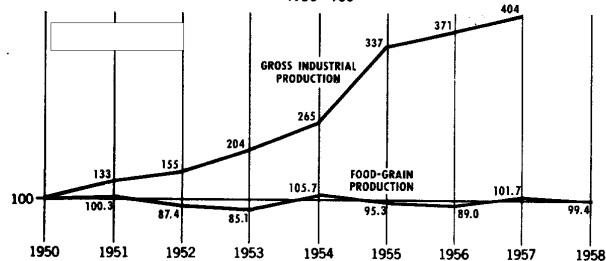
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The failure to emphasize economic development is most clearly apparent in the case

and salinity have reduced the productivity of land still in use and now cause as much acreage to go out of production annually as is added by new irrigation schemes.

PAKISTAN: INDUSTRIAL AND AGRICULTURAL PRODUCTION

1950=100



NOTE: AGRICULTURAL PRODUCTION FIGURES FOR YEAR ENDING 30 JUNE.

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of agricultural, particularly food-grain, production. Food-grain production has failed to keep up with population growth and now is no higher than it was ten years ago. Pakistan is thus forced to spend scarce foreign exchange for grain

Large landowners retained their dominant position. The land tax system, based on actual production rather than the productive capability of the land, fails to encourage expanded output. Little effort has been made to disseminate advanced

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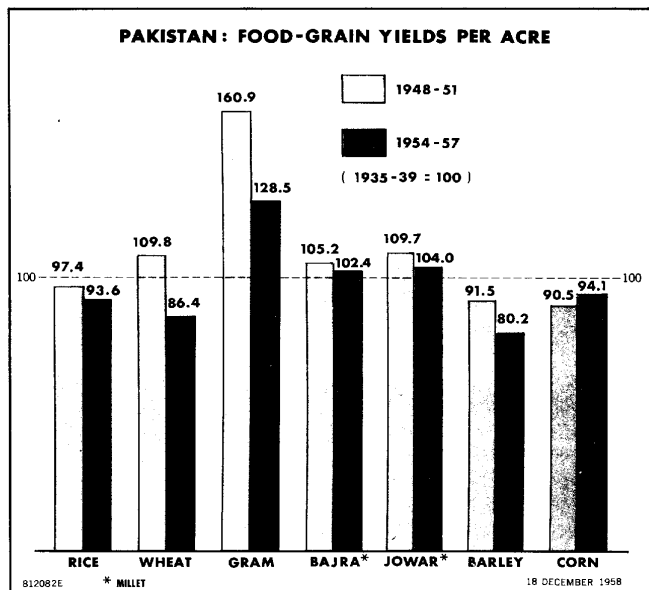
agricultural techniques to the peasants, and only a beginning has been made in distributing better seed and adequate amounts of fertilizer.

Foreign Trade

The problem probably least susceptible to solution by the new regime is that of increasing foreign trade. Raw jute and cotton exports account for over three fourths of Pakistan's total exports, and jute manufactures and cotton textiles account for part of the remainder. The development of substitutes for jute and the world oversupply of cotton and cotton textiles make unlikely any significant long-term improvement in earnings from these products, although cotton exports should rise above the extremely low level of 1958.

The decline in exports in the past two years has reduced Pakistan's gold and foreign-exchange reserves from \$271,000,000 at the end of 1956 to an all-time low of \$130,000,000 at the end of September 1958. The sharp fall in the reserves during 1958 caused widespread rumors of devaluation, which strong government denials did not completely dispel. The new regime has obtained a \$25,000,000 line of credit from the International Monetary Fund to bolster confidence in Pakistan's currency. Unless the reserves continue the rise which began about the time the new regime took over, however, such rumors may revive and further complicate the task of the government.

Since most of Pakistan's industry is, and probably will remain, a high-cost industry, its export potential is limited. The earlier hope that it might become an oil exporter has been diminished, as the five major oil companies drilling in Pakistan have had no success to date and are discouraged about future prospects. It is doubtful whether

Industrial Production

In contrast to the poor performance in agriculture, industrial production in Pakistan has increased rapidly, although it still accounts for only about 10 percent of Pakistan's gross national product. Large foreign-exchange earnings from jute and cotton sales during the Korean war boom enabled the importation of considerable amounts of industrial equipment, and protective tariffs and import restrictions provided a profitable domestic market for consumer goods and light-industrial items.

Past governments were not selective in approving new industrial plants, however, and permitted the establishment of more factories requiring imported raw materials than could be adequately supplied. Thus industry, despite its impressive growth, is operating at only about 50 percent of capacity because of raw material shortages.

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the present pace of drilling will continue for more than another few years unless a major oil field is discovered.

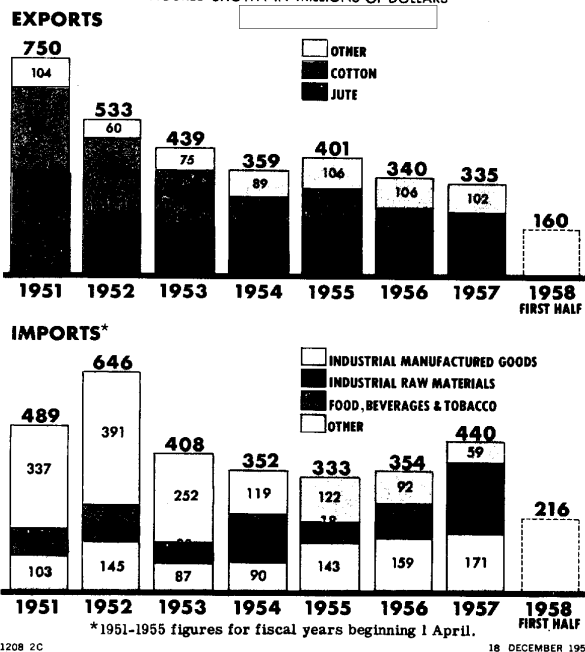
The new regime therefore appears to have a better chance to improve its foreign-trade position by reducing imports. A vigorous agricultural production drive combined with an effort to expand production of selected industrial goods could reduce imports significantly in time. Meanwhile, Pakistan will continue to be heavily dependent on foreign aid for several years at least.

Policies of the New Regime

Most of the policies President Ayub's regime has instituted so far--such as drives against smuggling and hoarding and for collection of back taxes --have been of a remedial nature and can provide only short-term benefits to the country. The government's major energies at the present time, however, are directed toward formulating a land-reform program and an effective system of price controls.

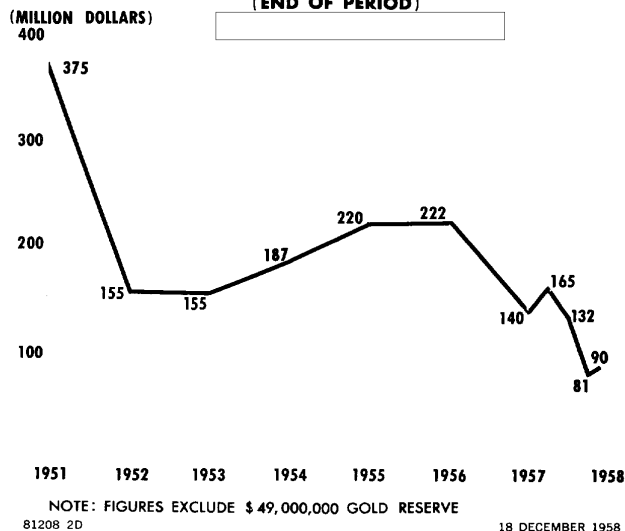
Army leaders, even though some are from the landowning class, recognize the necessity of land reform to increase peasant incentives and reduce the power of the landlords. A Land Reform Commission has been appointed to study the problem. Its recommendations, which are

PAKISTAN FIGURES SHOWN IN MILLIONS OF DOLLARS



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PAKISTAN: FOREIGN EXCHANGE RESERVES (END OF PERIOD)



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holdings of about 12 to 50 acres, again depending on the type of land. This program has already encountered opposition from the landlords and, if the new land law is to be successful, it must eliminate any loopholes through which they could avoid the full impact of the reform.

The regime also faces difficulty in formulating price controls that will prevent gouging of the public without hampering incentives. Profit margins were originally set at low levels. The government has recently felt it necessary to increase such margins, although such an increase probably will cost it some support among the urban elements who hailed its earlier--and stricter--price controls.

More important than either of these individual reforms in determining the long-run prospects of the regime, however, is its ability to formulate and execute a broad, well-conceived economic development program. Such a program would require a period of austerity during which it would probably lose at least some public support from those who hoped for immediate improvements. This austerity would be called for at the same time it attempts to increase popular participation in economic development activities.

Nevertheless, a determined government should be able to bring about increased production within a few years, especially since some large projects will

come into production during this period. The men now being chosen for high positions dealing with economic affairs are competent, although the degree to which their advice will be followed is not certain. Army leaders, however, have acquired a considerable knowledge of agricultural affairs through the operation of farms which supply the army's food, and so are generally aware of what must be done to increase food production.

Over a longer period, the government may find it necessary also to cut military expenditures to achieve significant and sustained economic progress without increased foreign aid. Expenditures for defense are as large as the government's investment expenditures. Defense costs will increase from \$210,000,000 to \$260,000,000 within a few years, and the foreign exchange portion of defense expenditures--apart from American aid--will increase from \$50,000,000 to nearly \$70,000,000 if the armed forces are maintained at their present size.

The ultimate success of Pakistan's economic development program may depend on settlement with India of the disputes over Kashmir and the waters of the Indus River basin. Without such a settlement, the government will find it difficult to concentrate on developmental problems and the armed forces cannot easily be reduced in size.

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